

# EXHIBIT D



Financial Oversight and Management Board  
for Puerto Rico

*José B. Carrión III*  
*Chair*

November 23, 2016

**VIA ELECTRONIC MAIL**

Honorable Alejandro García Padilla  
Governor of Puerto Rico  
La Fortaleza  
PO Box 9020082  
San Juan, PR 00902-0082

Dear Governor García Padilla:

I am writing on behalf of the Financial Oversight and Management Board for Puerto Rico (“the Board”) created under the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”). The purpose of this letter is to (1) convey the Board’s preliminary assessment of the Government of Puerto Rico’s (GPR) fiscal plan; (2) provide a timeline for the Board to certify a fiscal plan for the GPR; and (3) share Board procedures for transactions involving covered entities.

**Assessment of Fiscal Plan**

Let me begin by thanking you and your team for working with the Board on behalf of a better future for the people of Puerto Rico. We understand the challenges and opportunities that lie ahead. We appreciate your submission of the Fiscal and Economic Growth Plan (FEGP) for the Commonwealth of Puerto Rico and the considerable work required to develop that plan. We appreciate your presentation on October 14<sup>th</sup>, as well as subsequent discussions with your team and their consultants. Our work together has helped us better understand Puerto Rico’s fiscal challenges, the current liquidity situation, and the difficult choices necessary to restore fiscal balance, economic growth, and opportunity for the people of Puerto Rico.

After an extensive and careful review, a thorough consideration of comments on the plan submitted by more than 70 individuals and organizations, comments from the U.S. Treasury Department and the receipt of public testimony from by a wide range of stakeholders including economists, business leaders, students and representatives of community organizations, it has become clear to the Board that more policy adjustment, particularly with respect to structural reforms, is necessary for the Puerto Rican economy to return to sustainable growth. The fiscal plan must also include a

debt sustainability analysis. In this context, we respectfully request that your government prepare and submit a revised fiscal plan by December 15<sup>th</sup>, 2016.

To assist in this effort, my colleagues and I believe it useful to share some principles that will guide the Board's deliberations over the coming weeks. As you know, the Board adopted at its last meeting of November 18, 2016, principles to evaluate the Government of Puerto Rico's proposed fiscal plan and assess the degree to which the plan meets the 14 criteria established by PROMESA (see attachment). These five principles are:

Principle 1: The long-term fiscal plan must cover at least the next 10 fiscal years with meaningful progress in the next five and meet the standards set forth in the law (the 14 criteria). The fiscal plan should aim to meet the statutory criteria for the Board to be terminated within 10 years, which includes having adequate market access at reasonable rates and having at least four consecutive years of balanced budgets in accordance with modified accrual accounting standards.

Principle 2: The fiscal plan must work to stabilize the current economic situation, increase the economy's resilience, shore up public finances, support long-term, durable growth, meet basic needs of the citizenry, and restore opportunity for the people of Puerto Rico.

Principle 3: To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law (e.g., no Affordable Care Act support extension) and no reliance on unsustainable Act 154 revenues in light of the expiration of said act. Initiatives included in the fiscal plan must be based on applicable laws or specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan.

Principle 4: The plan must include an appropriate mix of structural reform, fiscal adjustment, and debt restructuring. It must be informed by the relevant analytical tools (e.g., a debt sustainability analysis and a detailed economic projection) that assure the Board that the GPR is pursuing a comprehensive approach to address acute economic, budgetary, and demographic challenges.

Principle 5: The fiscal plan must be accompanied by relevant operational plans that show how the GPR will achieve the changes and reforms it proposes.

Consistent with these principles, the Board requests that the plan be amended to reflect the principles stated above, as well as the following points:

1. Define and incorporate key aspirational goals, benchmarks and metrics for a ten year vision for Puerto Rico. This aspirational vision should drive Puerto

Rico to stabilize its current economic, social, demographic and financial situation, increase the economy's resilience, shore up public finances, support long-term, durable growth, address basic needs and restore opportunity for the people of Puerto Rico;

2. Exclude any funding from an extension of Affordable Care Act as well as revenues from an extension of Act 154 revenues in light of their expiration (unless the assumption is accompanied by a specific bill). The Board supports efforts to extend Affordable Care Act funds and Medicaid parity for Puerto Rico, but consistent with the PROMESA Act the Board has to insure that the Fiscal Plan is based on existing law or a specific bill.
3. Incorporate a revised baseline forecast to reflect pay-go funding for pension benefits and segregation of current employee contributions beginning no later than 2018; and
4. Include a debt restructuring proposal and also a debt sustainability analysis.

To better understand the implications of these revisions, as well as other potential policy adjustments, particularly with respect to structural reforms necessary for the Puerto Rican economy to return to sustainable growth, and to continue the ongoing, productive deliberations the Board has enjoyed with your government and its advisors, we would like to discuss the above stated principles as well as the economic and capital expenditures assumptions embedded in the fiscal plan with your team on November 29<sup>th</sup>. Such discussions may prompt the Board to request additional modifications in the fiscal plan.

#### **Timeline for Board Certification**

As discussed at the last Board meeting, our goal is for the Board to be in a position to certify a fiscal plan no later than January 31, 2017. Thus, below is the timeline we have set to achieve this ambitious, but necessary goal:

<b>November 23<sup>rd</sup></b>	Last day to Receive Comments from Stakeholders on FEGP
<b>November 29<sup>th</sup></b>	Working Session on FEGP
<b>December 9<sup>th</sup></b>	Working Session on FEGP
<b>December 12<sup>th</sup></b>	Publication of Baseline Projections for the FEGP and principles for achieving balance
<b>December 15<sup>th</sup></b>	Revised version of FEGP to be submitted to the Board

**Week of December 19<sup>th</sup>** Distribution to the Public of Revised FEGP and Invitation to Open Good-Faith Negotiations with Creditors

**Week of January 16<sup>th</sup>** Meeting to discuss the revised version of FEGP

**January 31<sup>st</sup>** Final Target Date for Certification of FEGP

My board colleagues and I stand ready to work with you and your team on a revised fiscal plan that we can certify by the target date of January 31<sup>st</sup>, 2017.

### **Procedure on Transactions Involving Covered Entities**

While the focus of the Board's November 18<sup>th</sup> meeting was on the fiscal plan, we took another action that I wanted to bring to your attention. We adopted the following procedure to Approve Transactions of Covered Entities under PROMESA:

- Transactions of Covered Instrumentalities that are subject to Approval under the PROMESA Act must be submitted to the Board by the Office of the Governor of Puerto Rico no less than 15 calendar days prior to its required approval.
- The clock for such 15 calendar days of review will start when the Board confirms that it has received all the information required for its review.
- The Board reserves the right to require additional time for its review in the case of complex transactions or in the case that the Board believes it requires additional information for its review of the transaction.
- The requested submission of approval must include, at a minimum, the following information:
  - A detailed memorandum signed by the Covered Instrumentality's highest responsible executive in office explaining all the details of the transaction, including, but not limited to, purpose of the transaction, reasons why the transaction is in the best public interest, the financial resources required to carry such transaction, and a summary of all principal legal documents required to execute the transaction.
  - The memorandum should be accompanied by a letter or memorandum evidencing the approval by the Fiscal Agency and Financial Advisory Authority of Puerto Rico and its rationale for approval and, also, a letter from the Office of the Governor of Puerto Rico endorsing the transaction and the rationale for such endorsement.

- A legal opinion that supports the reasons why the transaction is covered under PROMESA and under what legal basis the transaction can be approved by the Board.

I hope the above clarifications are useful to your and the incoming administrations. Please do not hesitate to contact me if you have any questions or would like to discuss any of these matters further.

We thank you for your and your team's continued work with us for the benefit of the people of Puerto Rico.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Carrión III', with a stylized flourish extending from the end.

José B. Carrión III

Attachment – PROMESA 14 Criteria

cc: Hon. Ricardo Rosselló, Governor-Elect

## **ATTACHMENT – PROMESA 14 CRITERIA FOR FISCAL PLANS**

Section 201(b) of PROMESA identifies 14 specific components and objectives a fiscal plan should address. In particular, PROMESA stipulates that the fiscal plan must provide a method to achieve fiscal responsibility and access to the capital markets, in addition to the following:

1. Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan;
2. Ensure the funding of essential public services;
3. Provide adequate funding for public pension systems;
4. Provide for the elimination of structural deficits;
5. For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable;
6. Improve fiscal governance, accountability, and internal controls;
7. Enable the achievement of fiscal targets;
8. Create independent forecasts of revenue for the period covered by the fiscal plan;
9. Include a debt sustainability analysis;
10. Provide for capital expenditures and investments necessary to promote economic growth;
11. Adopt appropriate recommendations submitted by the Oversight Board;
12. Include such additional information as the Oversight Board deems necessary;
13. Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted; and
14. Respect the relative lawful priorities or lawful liens in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the enactment of PROMESA.